



STATE OF CALIFORNIA

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

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**REQUIREMENTS FOR CREDIT ENHANCEMENT AND
PRIVATE PLACEMENT COMMITMENT LETTERS FOR
QUALIFIED RESIDENTIAL RENTAL PROJECT APPLICATIONS**

A. Lenders or private placement bond purchasers providing commitment letters should have completed the following due diligence for a commitment letter in an application to the Committee:

- 1) Review the Project Sponsor's pro-forma operating statement, sources and uses of funds, construction budget, and complete the initial underwriting of the proposed project.**
- 2) Inspection of the property and the surrounding neighborhood.**
- 3) Completion of a rental survey of comparable projects.**
- 4) Confirmation of preliminary underwriting assumptions with the appraiser.**
- 5) Review of the site map and design drawings.**
- 6) Review of credit reports, financial statements and legal history statements of the Project Sponsor and its principals.**
- 7) Discussion and review of the proposed project and underwriting with other parties in the financing team such as the underwriter and issuer.**
- 8) Presentation of the credit enhancement or bond purchase agreement to the lender's loan committee.**

B. The commitment letter should contain, at a minimum the following:

- 1) Borrower's name including the names of the general partners.**
- 2) Project name and location.**
- 3) Loan amount (credit enhancement or bond purchase amount).**

- 4) The instrument conveying the credit enhancement such as a letter of credit or bond insurance.**
- 5) Any other approved financing such as subordinate debt.**
- 6) The term and interest rate of the agreement.**
- 7) The security, collateral, or guaranty for the commitment.**
- 8) Underwriting requirements of the lender including evidence that the project has been underwritten using a minimum 1.1 debt coverage ratio.**
- 9) Fee structure.**
- 10) Occupancy requirements and use restrictions for the project.**
- 11) All terms and conditions must be achievable by the Project Sponsor within the 90 to 110 day time frame for issuing the bonds.**
- 12) Evidence that the lender is committed to move forward with the transaction if the terms and conditions in the commitment letter are met.**
- 13) Acceptance of the terms and conditions of the commitment letter by the Project Sponsor.**
- 14) For private placements, sources of repayment other than the project.**

C. For unrated or unenhanced transactions the following additional requirements shall apply:

- 1) Bonds must be issued in denominations no larger than \$100,000.**
- 2) An offering is to be limited only to sophisticated investors such as an accredited investor as defined by Regulation D of the Securities Act of 1933; or to qualified institutional buyers under Rule 144 A of the Act, to be approved by the Executive Director.**
- 3) An “investor letter” from initial investors indicating that they meet the investor criteria for the offering, that they have no present intention of reoffering the bonds in a subsequent public offering (but may subsequently transfer the bonds in a limited offering to another permitted transferee), that they have the sophistication to evaluate the merits and risks of the investment and suffer a loss of the investment, that they have been furnished all the information which they and their advisers requested on the offering and have had an opportunity to ask questions relating to that information, and other such matters.**
- 4) A traveling investor letter may be required of any subsequent transferee subject to the size of the minimum denomination and the type of sophisticated investor selected (see # 2 above).**